

Message Text

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SUBJ : NIGER RESPONDS TO BUDGET CRUNCH

REF: A) STATE 8486, B) LAGOS 261

1. LONG ACCUSTOMED TO SPENDING ON A BROAD FRONT WITH ITS OIL EXPORT REVENUES, NIGERIA HAS RECENTLY REALIZED THAT IT IS BUYING MORE THAN IT CAN

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EGKV ONE PROBLEM HAS BEEN THE LACK OF COORDINATION WITHIN GOVERNMENT, SHOPPING LISTS NOT BEING CAREFULLY CHECKED AGAINST BUDGETARY RESOURCES. ANOTHER HAS BEEN SOARING PRICES, A TENDENCY TO UNNECESSARY FRILLS, AND INACCURATE COST ESTIMATES. A THIRD MORE IMMEDIATE PROBLEM HAS BEEN THE DECLINE IN OIL OUTPUT AND BUFFER STOCKS, A SITUATION AGGRAVATED BY ALAVAL AND NORTH SEA FIELDS COMING ON STREAM WITH THE LIGHT LOW SULPHUR CRUDE WHICH HAD BEEN NIGERIA'S SPECIAL IRB

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2. A CAREFUL ASSESSMENT OF FMG PLANNING AND FINANCIAL OBLIGATIONS WAS CARRIED OUT BY THE MINISTRY OF FINANCE LATE IN UNCLASSIFIED

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1977. ITS FINDINGS REVEALED THAT COMMITMENTS FOR ONGOING CAPITAL PROJECTS EXCEEDED BY THREE TIMES THE AMOUNT OF AVAILABLE FUNDS, INCLUDING THE RECENTLY SYNDICATED ONE BILLION DOLLAR OFFSHORE LOAN. AS A RESULT OF THIS THE FMG DECLARED

EMBARGO ON ALL NEW GOVERNMENT CONTRACTS FOR THE FIRST SIX MONTHS OF 1978. TWO FACTORS WHICH WOULD ALLOW EXCEPTIONS TO

THE BAN ARE THE IMPORTANCE OF THE CONTRACT TO THE SECURITY OF NIGERIA AND THE "COMPLEMENTARITY" OF THE PROPOSED PROJECT TO EXISTING PROJECTS. FOR EXAMPLE, IF CERTAIN EQUIPMENT HAS ALREADY BEEN BOUGHT, A NEW CONTRACT SHOULD BE ISSUED TO PROVIDE ADEQUATE HOUSING AND INSTALLATION FOR THIS EQUIPMENT (#) TELEPHONE CENTRAL EXCHANGES WERE BUILT IN AN EARLIER PROJECT, A NEW CONTRACT FOR THE TRANSMISSION CABLES TO LINK THEM WOULD PRESUMABLY BE JUSTIFIED.

3. THE PERIOD SINCE THE MID-DECEMBER EMBARGO ORDER HAS BEEN A TIME OF FURTHER STUDY, SCRUTINY AND MEASUREMENT. FEDERAL AND STATE MINISTRIES ARE CAREFULLY GOING OVER THEIR WORK REQUIREMENTS, MORE SHARPLY DEFINING PRIORITIES AS TO WHAT MUST BE DONE. AT THE SAME TIME THE FMG IS ATTEMPTING TO RE-FINANCE SPECIFIC MAJOR PROJECTS AND NEGOTIATE LONGER REPAYMENT PERIODS IN TALKS WITH FOREIGN PUBLIC AND PRIVATE SECTOR LEADERS HERE AND ABROAD. ON FEBRUARY 13 A TEAM OF THREE PERMANENT SECRETARIES FROM THE MINISTRIES OF FINANCE, INDUSTRY AND ECONOMIC DEVELOPMENT RETURNED FROM A WEEK OF VISITS TO BONN, MOSCOW AND TOKYO. THE DEGREE OF THEIR SUCCESS IN OBTAINING MORE EXTENSIVE CREDITS WILL HAVE AN IMPORTANT BEARING ON NIGERIAN PURCHASING PATTERNS FOR 1978.

4. IN THE WAKE OF THE BUDGETARY SQUEEZE CERTAIN POLICIES HAVE ALREADY EMERGED CLEARLY. EXISTING CONTRACTS FOR ONGOING PROJECTS WILL NOT BE ABROGATED. THERE WILL BE AN INTENSIFIED EFFORT TO UNCLASSIFIED

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OBTAIN MORE OFFSHORE FINANCING. THE FMG WILL ATTEMPT TO OVERHAUL ITS DOMESTIC TAX OPERATIONS, WHICH PRESENTLY BRING IN VERY LITTLE REVENUE, TO BOLSTER GOVERNMENT INCOME. GRANDIOSE PRESTIGE PROJECTS ARE RULED OUT. FOR THE FORESEEABLE FUTURE THERE WILL BE NO MORE CONSTANTLY IMITATED EVENTS SUCH AS THE BLACK ARTS FESTIVAL AND THE PAN-AFRICAN GAMES. ORDERS FOR NEW GOVERNMENT BUILDINGS WILL BE INDEFINITELY DELAYED. IT WOULD FURTHER APPEAR THAT IMPORT RESTRICTIONS WILL BE WIDENED. THE LAST SET OF PROHIBITIONS WAS IMPOSED IN THE ANNUAL BUDGET MESSAGE OF APRIL 1, 1977. A NUMBER OF OBSERVERS BELIEVE THAT THIS YEAR'S APRIL BUDGET MESSAGE WILL EXTEND BARRIERS FURTHER IN THE CONSUMER GOODS FIELD, POSSIBLY BANNING IMPORTS OF FOOTWEAR, ELECTRIC APPLIANCES AND TELEVISION SETS, ANSIFNWSIND DUTIES ON SOME FOODSTUFFS.

5. IMPORT BANS ARE EXPECTED TO GIVE IMPETUS TO PRIVATE INVESTMENT IN THE MANUFACTURING SECTOR. THERE ARE ALREADY SIGNS THAT TRADING COMPANIES WHICH FORMERLY REPATRIATED A LARGE PERCENTAGE OF PROFITS TO THE U.S., ARE NOW DIRECTING THEIR MONEY INTO NEW PRODUCTION FACILITIES WITHIN NIGERIA. SECTORS BELIEVED BY GOVERNMENT

PLANNERS TO OFFER PROFIT AND SECURITY INCLUDE PRODUCTION OF CEMENT AND BUILDING PRODUCTS, FERTILIZER PLANTS, ELECTRIC POWER GENERATION FACILITIES, AND IRON AND STEEL PLANTS. FOOD PROCESSING FACILITIES ARE REGARDED AS STILL A BIT PREMATURE AS SUFFICIENT RAW MATERIAL MUST FIRST BE PRODUCED ON THE FARMS. TO BE VIABLE, ANY FUTURE PROCESSING ENTERPRISE WOULD PREFERABLY BE AN INTEGRATED COMPANY CONTROLLING EVERY STAGE OF THE OPERATION FROM AGRICULTURE CULTIVATION TO PACKAGING FOR DISTRIBUTION.

6. THERE WILL BE A SIGNIFICANT DROP IN NEW CONTRACT AWARDS THROUGH MID-1978. INDICATIONS AS TO WHETHER C345-8, 3:594 28)) 7**34 MORE THAN OTHERS HAVE BEEN ERRATIC. IN LATE DECEMBER THERE WERE PREDICTIONS THAT SPENDING IN THE TELECOMMUNICATIONS SECTOR WOULD BE SHARPLY CURTAILED, THE RATIONABLE UNCLASSIFIED

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BEING THAT NIGERIA HAD SPENT ENORMOUS SUMS FOR EQUIPMENT AND SERVICES BUT HAD BEEN UNABLE TO PULL THE PIECES TOGETHER IN A WORKABLE PROGRAM. HOWEVER, THE NEED FOR NEW PROJECTS TO ACTIVATE PREVIOUS ONES MAY ENSURE CONTINUING ACTIVITY IN THIS FIELD. NOW FEDERAL ROADWORK APPEARS STYMIED BUT STATE ROADS MAY GO FORWARD. AIRPORT AND SEAIORT PROJECTS SHOULD SLOW. THE CONSTRUCTION INDUSTRY AS A WHOLE SHOULD GO INTO LOWER GEAR. IN CONTRAST, PURCHASES FOR ELECTRICAL POWER GENERATION SHOULD SPURT.

7. WHILE HOLDING THE LINE ON NEW WORK, THE FMG WILL EXPLORE THE POSSIBILITY OF SPREADING OUT WORK SCHEDULES AND PAYMENTS FOR ONGOING PROJECTS OVER A LONGER PERIOD OF TIME. PROJECTS WHICH WERE PLANNED FOR COMPLETION BY 1979 MIGHT WELL BE STRETCHED OUT TO 1982. SUCH DELAYED PROJECTS COULD MAKE UP THE BULK OF THE FOURTH 5-YEAR DEVELOPMENT PLAN, 1980-85. FOR THOSE PROJECTS IN WHICH THE CONTRACTOR WILL NOT AGREE TO A TIME EXTENSION, THE FMG COULD PERMIT THE WORK TO BE COMPLETED ON SCHEDULE BUT WOULD NOT PAY THE CONTRACTOR THE NX CB SUM. IT WOULD INSTEAD MAKE PAYMENTS ON A DEFERRED INSTALLMENT BASIS AND PAY A SUITABLE INTEREST RATE ON THE BALANCE. EASUM

NOTE BY OC/T: LAGOS 1912 TEXT AS RECEIVED CORRECTION TO FOLLOW.

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